

Analysis and Forecasts for the Kansai Economy

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• This report provides an analysis of current economic trends in the Kansai region. It is produced by APIR's *Short-term Forecasts for Japan's and Kansai's Economies* project team headed by Yoshihisa Inada (Director of the APIR Centre for Quantitative Economic Analysis & Professor Emeritus of Konan University).

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• In this report, 'Kansai' includes 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. The term 'Kinki' used in official data to define the same region has been changed to 'Kansai' for consistency purposes.

• Forecasts are made using APIR's original forecast model for the Kansai economy and are supervised by Prof. Yoshihisa Inada and Prof. Hiroaki Irie.

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Note: Figures in the table are calculated using the expenditure method, and differ from forecasts made using the production method.

Forecast Highlights

Sluggish recovery of domestic and external demand.

Private demand and exports are expected to gradually pick up after FY 2024.

- ◆ In 2023 Q4, Kansai's economy remained stagnant, as the recovery of both domestic and external demand was lackluster. In the household sector, the consumer sentiment, as well as the income and employment environment remain weak. In the corporate sector, business confidence is robust, but industrial production keeps fluctuating. In the external sector, inbound tourism recovered to pre-pandemic levels, but goods exports keep declining.
- ◆ The household sector remains stagnant. Although large retail store sales are strong due to a recovery in customer traffic, including inbound tourism, the consumer sentiment, the income and employment environment, and the housing market remain weak. Although the pace of price hikes has moderated, the momentum for wage hikes has also settled, and the diminishing real wages are casting a shadow over individual consumption.
- ◆ In the corporate sector, a gradual recovery can be seen. However, industrial production, among other indicators, remains weak. Business confidence recovered both in the manufacturing and in the non-manufacturing sectors. Currently, planned capital investment for the next fiscal year is ample. Nevertheless, considering the fluctuations in industrial production, including the first decline in three quarters in 2023 Q4, the recovery seems uncertain.
- ◆ In the external sector, both exports and imports remain weak. In contrast to the rest of Japan, Kansai's exports kept declining for the third consecutive quarter in 2023 Q4. On the other hand, inbound tourism is seeing a robust recovery. The number of international arrivals at KIX and the duty-free sales have recovered to their pre-pandemic levels, and they keep increasing.
- ◆ Kansai's public sector is doing well in view of the upcoming World Expo.
- ◆ According to our projections, Kansai's real GRP is will grow +1.4% in FY 2023, +1.5% in FY 2024, and +1.5% in FY 2025. Although growth will be subdued, in the 1% range, it is expected to surpass the national figure. Compared to our previous forecast, we have revised our FY 2023 and FY 2025 forecasts up by +0.1 percentage point (pp), but we have revised the FY 2024 forecast down by -0.1 pp.
- ◆ In terms of contributions to growth, private demand is expected to contribute +0.3 pp in FY 2023, +0.9 pp in FY 2024, and +1.5 pp in FY 2025. Private demand is expected to recover sometime in FY 2024. Thanks to investments related to the World Expo, public demand will contribute +0.4 pp in FY 2023, +0.3 in FY 2024. However, its contribution will be nil after the end of the Expo in FY 2025. Finally, external demand will contribute +0.7 pp in FY 2023, and +0.3 pp in FY 2024 and FY 2025.
- ◆ Overall, Kansai's economy is expected to outperform the Japanese economy in FY 2023-25. In FY 2023, while Kansai's exports to China will stagnate, resulting in external demand making a smaller contribution than the national average, the investment component of private and public demand will outperform the rest of the country. In FY 2024, Kansai's economy will do better than other regions thanks to private capital investment and public investment related to the World Expo. In FY 2025, external demand is expected to propel Kansai ahead of the national average.
- ◆ In the "Topics" section of the Japanese language version of this report, we analyze the economic impact of the Noto earthquake on the three Hokuriku prefectures, as well as the economic spill-over effects of the 2025 World Expo.

Forecast Summary

	FY	Kansai					Japan				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.5	2.6	0.1	0.9	1.1	1.8	2.7	▲ 0.4	0.7	1.0
Private residential investment		▲ 1.6	3.7	1.0	0.0	1.8	0.1	▲ 3.4	1.5	▲ 0.5	0.1
Private non-residential capital investment		1.2	1.6	1.3	2.6	2.5	1.7	3.4	▲ 0.6	2.4	2.7
Government final consumption expenditure		3.0	1.1	0.5	0.4	0.4	3.2	1.4	0.5	0.4	0.4
Public fixed capital formation		▲ 1.5	0.8	3.5	3.5	▲ 1.7	▲ 6.5	▲ 6.1	3.1	0.9	1.0
Exports		8.4	2.9	0.8	1.8	2.5	12.4	4.7	4.3	2.8	2.4
Imports		4.1	6.1	▲ 1.0	0.9	1.8	7.2	6.9	▲ 2.4	2.7	2.6
Real GRP/GDP		2.5	1.4	1.4	1.5	1.5	2.8	1.5	1.3	0.8	1.1
Private demand (contribution)		1.0	2.1	0.3	0.9	1.2	1.7	2.0	▲ 0.3	0.6	0.9
Public demand (contribution)		0.4	0.2	0.4	0.3	▲ 0.0	0.3	0.0	0.3	0.1	0.1
Net exports (contribution)		1.0	▲ 0.9	0.7	0.3	0.3	0.8	▲ 0.5	1.3	0.0	▲ 0.0
Nominal GRP/GDP		2.4	1.9	5.1	3.2	3.4	2.7	2.3	5.2	2.3	2.9
GRP/GDP deflator		▲ 0.1	0.4	3.7	1.6	1.8	▲ 0.1	0.8	3.8	1.5	1.8
Consumer price index		0.0	2.8	2.8	2.2	1.6	0.0	3.1	2.8	2.0	1.4
Industrial Production Index		5.2	▲ 2.2	▲ 0.3	1.1	1.4	5.5	▲ 0.3	▲ 0.8	1.1	1.4
Unemployment rate		3.0	2.9	2.9	2.7	2.6	2.8	2.6	2.5	2.4	2.2

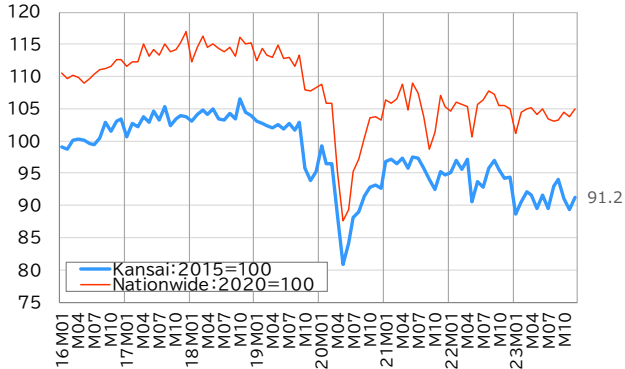
Notes: Unit= %. All figures except 'Unemployment rate' are YoY growth rates. Figures on Kansai's economy for FY 2021-22 are estimates, and figures for FY 2023-25 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-25) are sourced from APIR's Economic Forecast and Analysis No. 147.

Previous Forecast (2023/12/15)

	FY	Kansai					Japan				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.6	2.6	0.4	1.1	0.8	1.8	2.7	0.0	0.9	0.8
Private residential investment		▲ 1.5	3.6	1.2	0.1	1.3	0.1	▲ 3.4	2.5	1.6	0.3
Private non-residential capital investment		1.2	1.6	2.1	2.3	2.8	1.7	3.4	▲ 0.1	2.1	2.9
Government final consumption expenditure		3.0	1.1	0.7	0.3	0.4	3.2	1.4	0.9	0.3	0.2
Public fixed capital formation		▲ 1.5	0.8	4.0	2.9	2.4	▲ 6.5	▲ 6.1	3.0	1.7	0.9
Exports		8.4	2.7	0.7	2.1	3.4	12.4	4.7	4.1	3.8	2.4
Imports		4.1	6.0	0.1	1.3	3.2	7.1	7.1	▲ 2.7	1.9	1.9
Real GRP/GDP		2.5	1.4	1.3	1.6	1.4	2.8	1.5	1.7	1.4	1.1
Private demand (contribution)		1.0	2.1	0.6	1.1	1.0	1.7	2.0	▲ 0.0	0.9	0.9
Public demand (contribution)		0.4	0.2	0.4	0.3	0.2	0.3	0.0	0.4	0.1	0.1
Net exports (contribution)		1.0	▲ 0.9	0.3	0.2	0.2	0.8	▲ 0.5	1.4	0.4	0.1

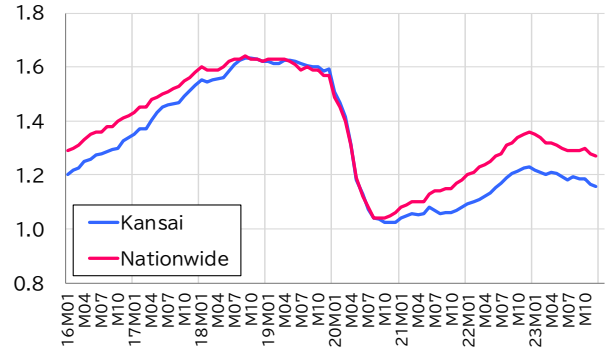
Forecasts at a Glance

【Index of Industrial Production (Kansai:2015=100, Nationwide:2020=100), including Fukui Prefecture】



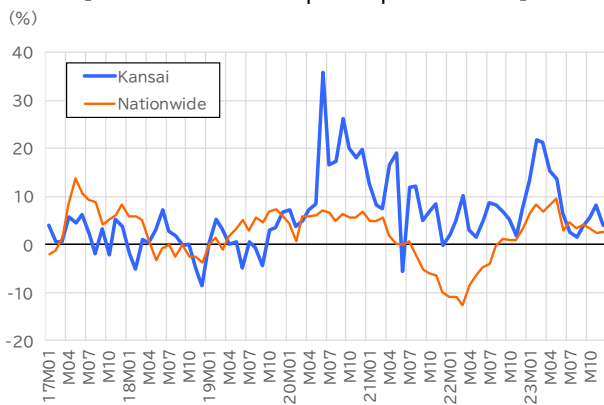
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



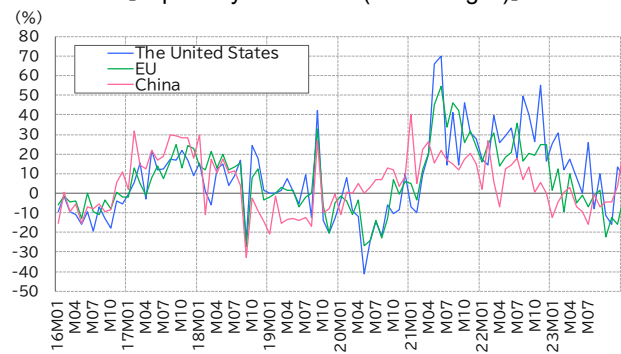
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



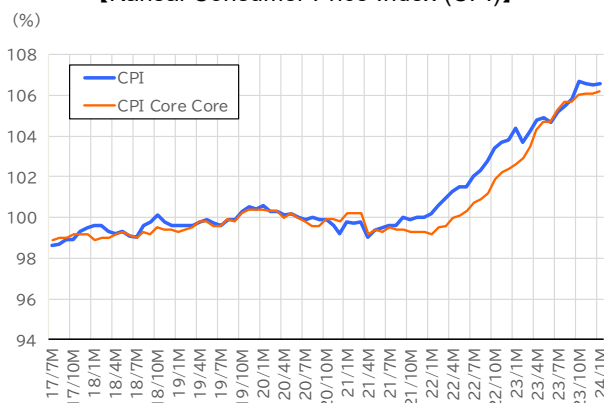
Source: MLIT

【Exports by destination (YoY changes)】



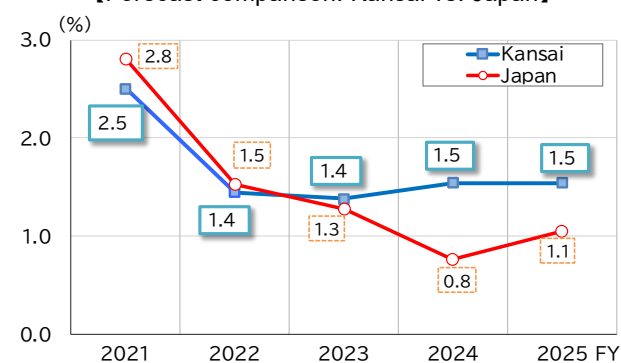
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.68"